

AR75



**Sierra**

*New thinking.*



**Annual Report 2000**



**Sierra Systems Group Inc.**





# Sierra

*New thinking.*

Our mission is to enhance the competitive position of our clients through the implementation of information technology-based business solutions.

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## President's Message



**Grant R. Gisell**  
Chairman,  
President and Chief  
Executive Officer

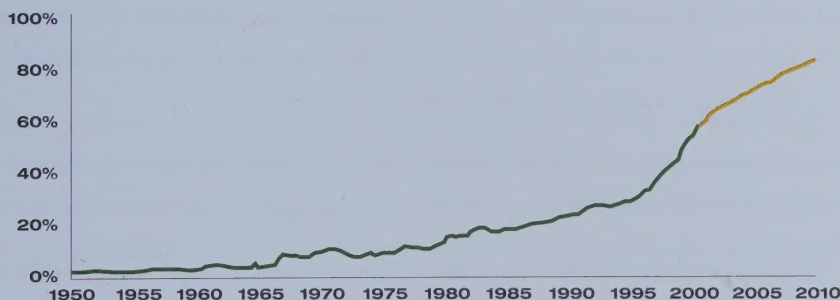
Y2K scare, dot-com collapse, and more drove the Information Technology services industry into a state of turmoil over the past twelve months. The year's good news was that the sky did not fall on January 1, 2000; however, in April, the sky did seem to fall on the empty IPOs and red ink of the dot-com bubble. These significant events marked the end of the exploration phase of Internet capabilities that focused on the dot-com world. Beyond 2000, the Internet will now be moving to Sierra Systems' strengths — profitable, mainstream businesses and forward thinking, efficient governments.

In the meantime, a price was paid for this double hit. Major technology users, focusing on the January 1 portents, were not thinking about life after Y2K. Many businesses planning new initiatives were moving cautiously when the dot-com bubble burst and the entire IT services industry and Sierra Systems could not escape without feeling the impact. For Sierra Systems, calendar Q1 was slow to initiate normal business activity. But by calendar Q2, sales activity began to return and by calendar Q3, Sierra Systems had initiated many major projects, increasing both revenue and profitability. Our company has used this year to enhance the skills of our employees, strengthen operations and sharpen our focus to maximize results as this trend continues into 2001.

The business opportunity for increased value and reduced cost created by the Internet-based 'eWorld' may have been slowed for a few months by Y2K fatigue, but the direction is unstoppable. This shift to the Internet to foster profitable businesses and effective government has always been Sierra Systems' expectation. This trend is demonstrated in the following chart that identifies the escalating role of technology.

### Information Processing

As a percentage of total real equipment investment



Source: Bureau of Economic Analysis, DRI estimates

Strategically, Sierra Systems is committed to delivering business solutions that make the public sector more efficient and industry more competitive. Through a deep understanding of the impact of technology and through business thought leadership, Sierra Systems provides focused services in six vertical markets: Telecommunications, Utilities, Health, Financial Services and Insurance, Government, and Justice with police, courts and corrections facilities. The Internet is also creating significant changes in every workplace, bringing employees and customers closer and conveying vast amounts of information to the desktop for analysis and action. **Sierra Systems is there.**





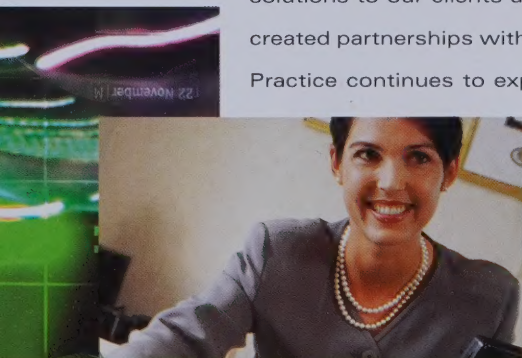
Tactically, the past year saw many changes at Sierra Systems, as we strove to improve our solutions delivery.

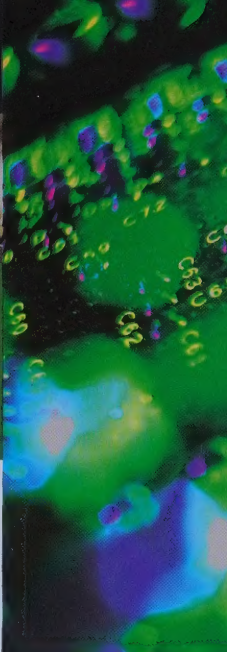

- In February, we introduced our 'New thinking' branding. *New thinking* moves beyond the Internet. For our clients, it means offering the best of the new Web-based technologies, while applying our core systems experience to promote efficient, effective integration. Sierra Systems is dedicated to driving Internet-based value for all our clients and finding new ways of applying technology to solve their business problems.
- In April, Sierra Systems acquired the assets and employees of TWA Consulting in Toronto. TWA was focused on Financial Services and Insurance and significantly enhances our capability in this dynamic industry.
- In May, we introduced the role of Chief Operating Officer to coordinate our company-wide marketing, sales and service delivery. Leslie Ann Ingram was appointed to this role and has since implemented a common organization structure in each branch. This model allows tighter operational management.
- In June, Sierra Systems opened a new office in Olympia, Washington, the state capital. This office has been well received and has won significant new Health-related business that has implications across many states.
- In July, we initiated Sierra Systems University, tying together all of our internal educational activities. Through classroom and Internet-based training, we are dedicated to continually enhancing the capabilities and skills of our employees.
- In September, Sierra Systems' Washington, DC, office entered into a significant relationship with the U.S. federal government, that we believe will create unique business opportunities.

Partnering with industry-leading vendors allows us to expand our market base and increase our value to our clients. During the past year, Sierra Systems continued working with our largest business partners — Microsoft, Oracle, PeopleSoft and Sun Microsystems — to bring leading-edge solutions to our clients. We have been able to deliver their advanced new technology-based solutions to our clients across all of our industry practices. Our Specialty Practices also have created partnerships with vendors focused in their various industries. For example, our Utilities Practice continues to expand into the U.S. market by partnering with Open-c Solutions. Our

first project together, announced in May 2000, has been successfully completed and a second undertaking has begun, targeted to finish in the spring 2002.

Critical to Sierra Systems' success is the completion of projects on schedule and on budget. While risk is inherent in what we do, managing





**"The business opportunity for increased value and reduced cost created by the Internet-based 'eWorld' is unstoppable."**

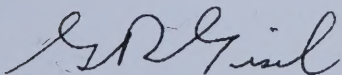
**Grant R. Gisel**  
Chairman, President and Chief Executive Officer

its impact is critical. In 1999, we formalized a risk management function to oversee all major projects. This group, led by three senior partners, ensures that we keep on track. The benefits were demonstrated throughout fiscal 2000. Risk management allowed our company to structure better business relationships and keep senior management more informed.

Our focus for the coming year is clear.

- **Priority one** is profit growth. Our objective is to drive toward the levels of profitability we displayed in 1998. This will come from providing business value to our large, strategic clients and effective business management of Sierra Systems' operations. Realistically, accomplishing this goal will be partially achieved in 2001 and completed in 2002.
- **Priority two** is expanding our Specialty Practices across all branches to allow us to profitably engage with new clients and expand our value to our existing clients.
- **Priority three** is location. We will continue to expand our geographic reach through establishing and acquiring new offices where we can provide exceptional service and business value.

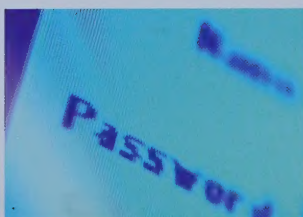
Sierra Systems delivers focused, value-based business solutions to enhance the efficiency and competitive position of our clients. This is the mission and dedication of our people and we strongly believe our clients appreciate our approach and focus. To all our staff who work so diligently to deliver successful solutions to our clients, I extend my heartfelt thanks for a job superbly done.



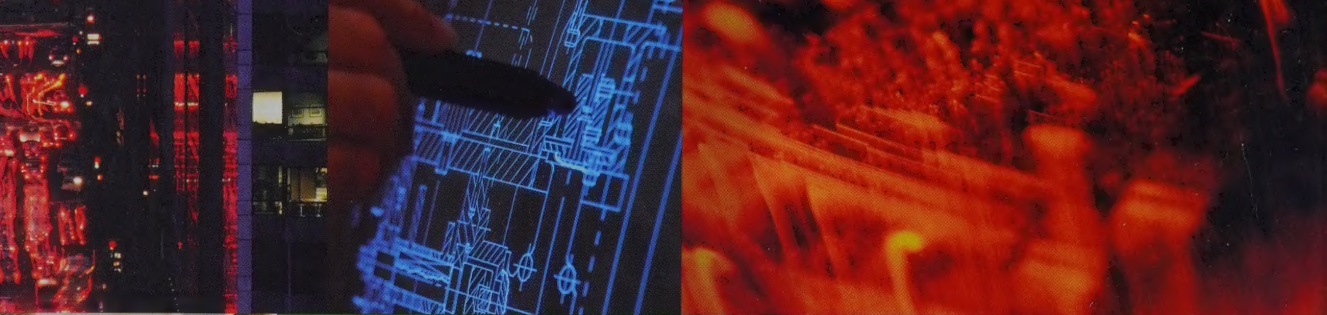
**Grant R. Gisel**

Chairman, President and Chief Executive Officer

December 20, 2000







**"New thinking means offering the best of the new Web-based technologies, while applying our core systems experience to promote efficient, effective integration."**

**Grant R. Gisell**, Chairman, President  
and Chief Executive Officer



### **Why Choose Sierra Systems?**

Because we know how to deliver.

96% of our clients surveyed say that we exceeded their expectations.

The bottom line? We know our clients, and we know their business.

How? Through our thought leadership in six industry practices and our eWorkplace practice. Through our dedicated local market presence in fifteen locations in the United States and Canada. Through our dynamic network of committed professionals who apply Sierra Systems' *New thinking* to the business issues, the technical solutions and the people issues. Through late nights and long hours working side by side with our clients.

So why choose us? Just ask our clients — **because we deliver.**



## Telecommunications

The Telecommunications industry is exploding with opportunity, with long established companies competing against nimble new startups for market share.

Sierra Systems' Telecommunications Practice is implementing business and technology solutions supporting mergers, customer care, billing, traditional voice and data convergence, delivering services over the Internet, and deploying new components like voice over Internet Protocol (IP) and wireless applications.

Our reputation is reliable, spanning the traditional long distance and wireline business units, and extending into wireless and new technology service providers.

From large providers and startups to consumers, Sierra Systems is a key partner in this booming industry, building the relationships, tools and systems for telecommunications companies on the rise.

"Our Dealers are delighted with iTOCS as a new sales tool. Sierra Systems and TELUS worked together to meet an important Corporate objective of 'being easy to do business with' and enhancing our business relationship with our Sales Channel Partners. Providing our Sales Channel with virtually instant updates on new product and service information means we have significantly reduced time to market for our Dealers, allowing them to be more successful in a highly competitive marketplace."

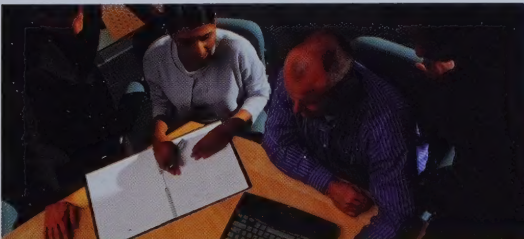
Linda Stuart, Manager, Complementary Sales Channel  
TELUS Communications Inc.

### TELUS COMMUNICATIONS INC.

TELUS Communications is one of three customer-focused business units of TELUS Corporation, one of Canada's largest telecommunications companies.

Sierra Systems and TELUS collaborated to develop iTOCS: Internet TELUS Order Capture System. This eCommerce solution improves administration and back-end processes for the capture of orders from approved dealers to the TELUS customer service representatives.

Sierra Systems' eBusiness Development Guidelines were leveraged for the rapid Web-based development. Sierra Systems played key roles throughout the life cycle, including developing high-level business requirements, object oriented analysis and design, systems development, configuration of operational systems, quality assurance and systems deployment. iTOCS gives TELUS the ability to respond to the dynamic, competitive marketplace with better, more efficient and cost-effective service for the customer — ultimately improving their bottom line.





Deregulation and new technology have ushered in a new, ultra-competitive utilities industry — an industry literally turned on its end.

The drive for utilities to compete for customers and to service new customer demands has never been greater, and Sierra Systems' Utilities Practice is giving our clients the leading edge they need.

We extend our clients' reach to their customers through the Internet with Web-based solutions. We strategically team up with leading edge software product companies, including Open-c Solutions, ConneXt and Lucent Technologies to deliver the significant benefits that new customer care systems bring.

Sierra Systems is achieving new levels of speed and accuracy for clients, so that they can deliver new and improved products and services to their customers — and make their bottom line more profitable.

#### BC GAS INC.

BC Gas Inc. is a leading provider of energy and utility services in Western Canada and the U.S. Pacific Northwest, serving 750,000 customers in over 100 communities. In 1999, BC Gas embarked on Program Mercury with Sierra Systems to implement a new Web-based customer care solution.

By April 2000, the first phase of the project was completed, and more than 300 BC Gas

employees were using leading-edge technologies to meet the changing and increasing demands of their customers. The new browser-based application provided customers with improved Web access, and simplified ongoing installation and support for internal BC Gas users.

What's more, with Sierra Systems as their implementation partner, Program Mercury was concluded successfully — on time and under budget.

**"I was pleased with Sierra Systems' approach to planning and scoping the work up front. We are very pleased with the professionalism of the team that was assigned to our project. Sierra Systems has shown a keen interest in the success of our project going forward, beyond project completion."**

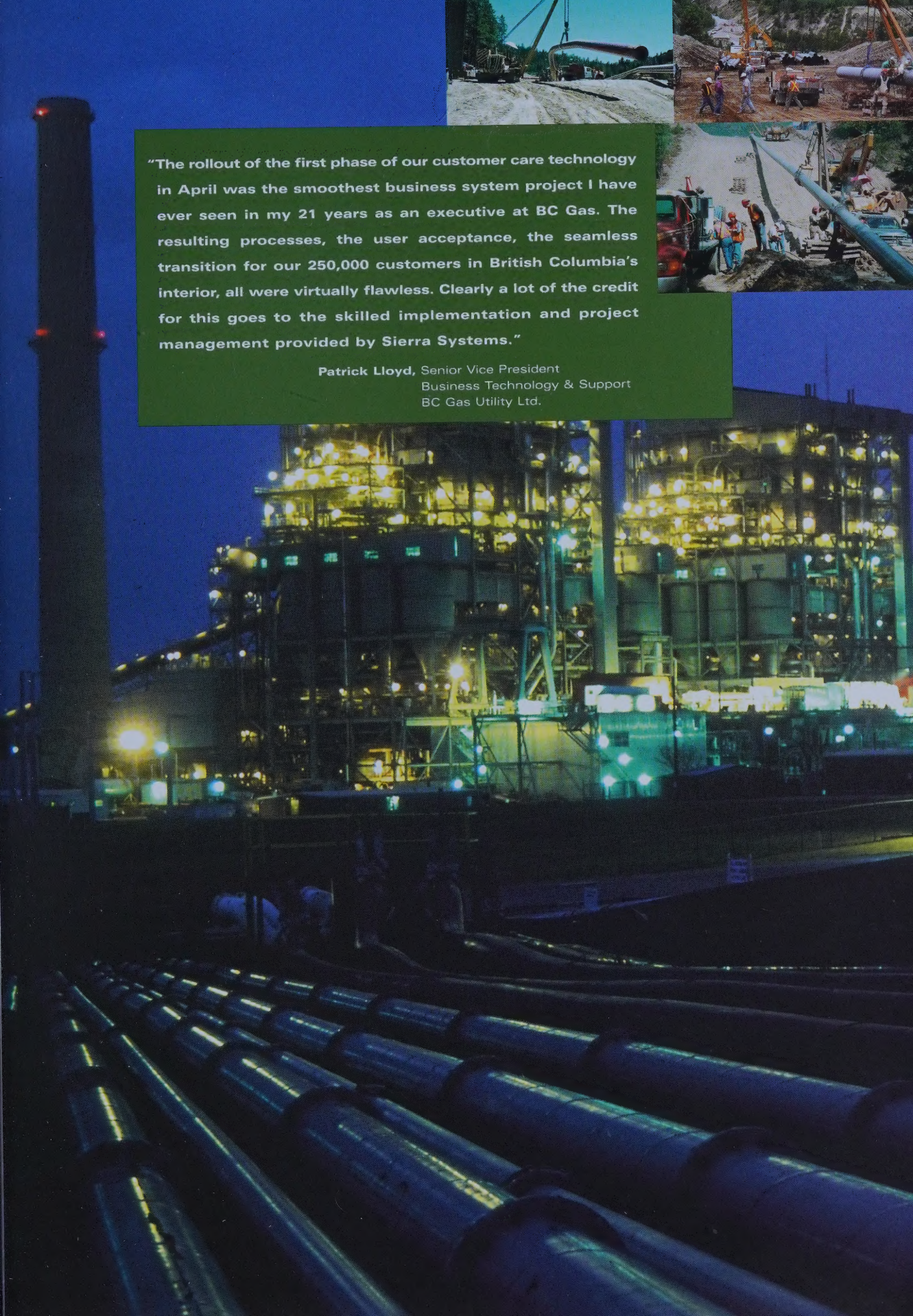
**Rob Casavant**, Manager, Planning and Services  
Enbridge Pipelines Inc., IT Tactical Migration Project

**"Sierra Systems greatly enhanced our ability to implement Open-cIS swiftly and smoothly. Their skilled resources and emphasis on risk management helped us complete the project in just nine months and avoid the pitfalls that are typical of CIS projects."**

**Pat Langan**, President, Open-c Solutions Inc.



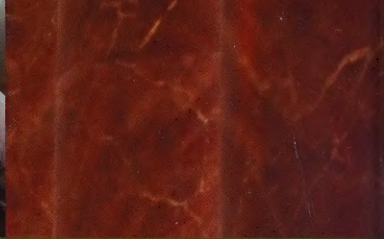
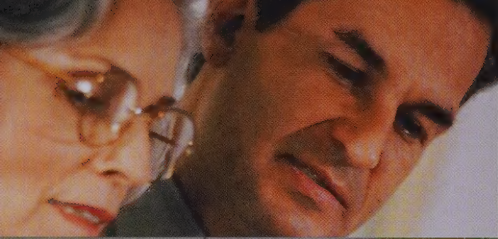




"The rollout of the first phase of our customer care technology in April was the smoothest business system project I have ever seen in my 21 years as an executive at BC Gas. The resulting processes, the user acceptance, the seamless transition for our 250,000 customers in British Columbia's interior, all were virtually flawless. Clearly a lot of the credit for this goes to the skilled implementation and project management provided by Sierra Systems."

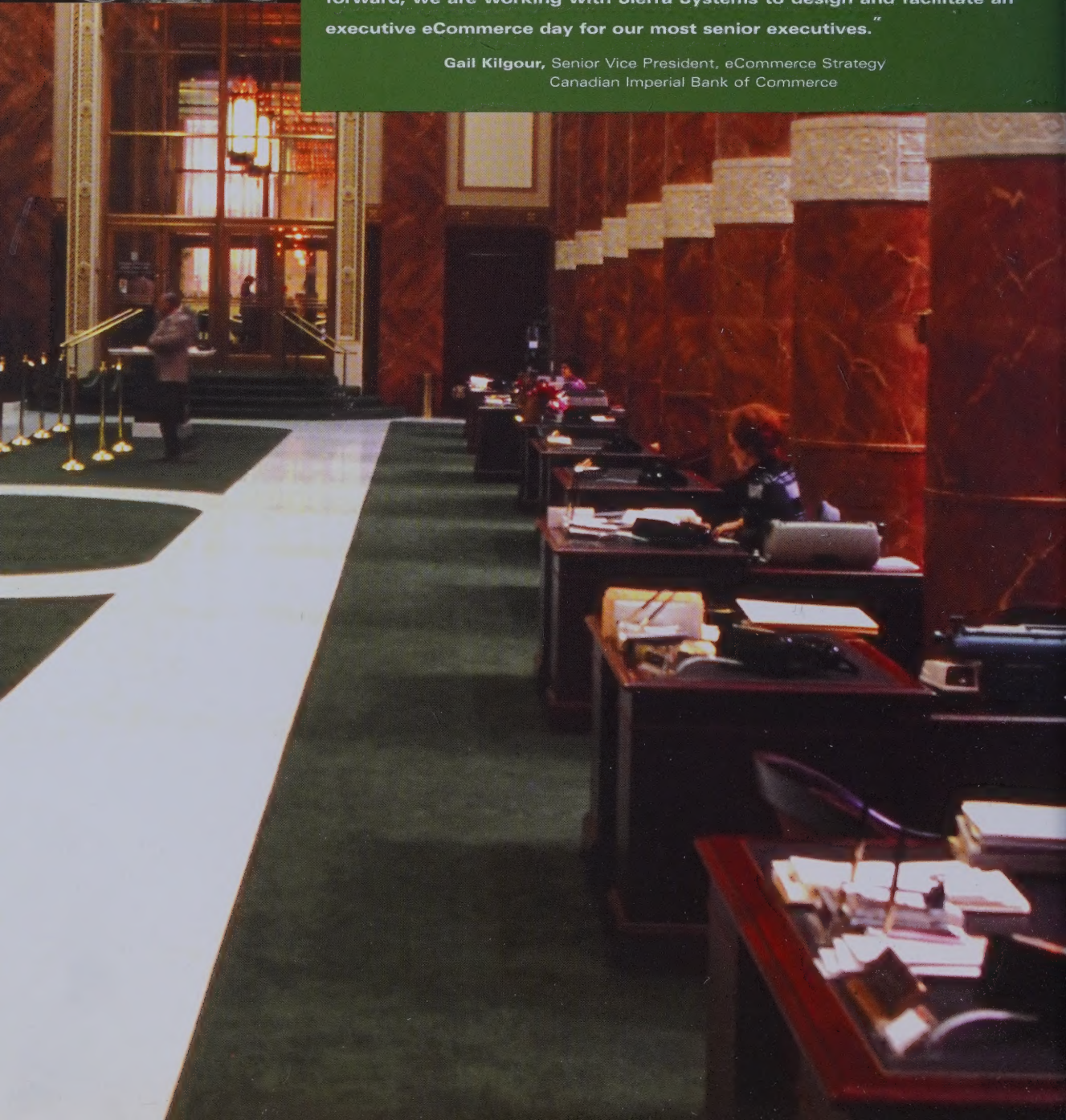
Patrick Lloyd, Senior Vice President  
Business Technology & Support  
BC Gas Utility Ltd.





"Sierra Systems' consultants have provided advice and frameworks to help us increase our understanding of the potential of eCommerce at CIBC. They have delivered a series of thought provoking presentations on eCommerce in financial services that have been well attended and received by bank executives. Their professionals have conducted a successful strategy workshop for one of CIBC's eCommerce business units. Looking forward, we are working with Sierra Systems to design and facilitate an executive eCommerce day for our most senior executives."

Gail Kilgour, Senior Vice President, eCommerce Strategy  
Canadian Imperial Bank of Commerce





## Financial Services and Insurance

How does eCommerce impact the bottom line? For some of the largest financial institutions in North America, Sierra Systems has already answered that question.

During fiscal 2000, our Financial Services Practice was engaged by large banks, insurance companies, a stock exchange and captive technology companies. All providers to the financial services industry, they were looking for ways to better serve their customers and their employees.

Sierra Systems' professionals designed and facilitated executive sessions to advance our clients' understanding of eCommerce business models and demonstrated how enabling technologies could strengthen their financial performance and their customer service.

We have built systems that use the Internet to deliver insurance application processes. We have enabled retail customers to access their accounts over the Internet, supported by a call center.

The bottom line on eCommerce is that we get it. We're doing it for established companies and our clients keep coming back.

### HEALTHCARE BENEFIT TRUST

Industry restructuring, rapid changes in technology and increasing membership led Healthcare Benefit Trust (HBT), a not-for-profit trust providing its membership with extensive health and welfare benefits, to undertake, with Sierra Systems, the automating of many of its processes to enhance service to its members.

The first phase of the multi-year design, development and deployment of Health Administration Link (HAL) has already been launched. HAL is composed of a variety of applications built on Microsoft n-tier technology and Unix-based

Web components. It provides Web-based employee health and welfare benefit enrollment for health care, social services and community employers in British Columbia and the Yukon.

Further applications will handle employee information, benefit plans, long-term disability claims tracking and rehabilitation services management for employers and their employees over a secure Internet connection. HBT is on its way to efficiently and effectively using the Internet to provide significant advantages inside the organization and to its membership.

"This year, Sierra Systems has greatly assisted us in evaluating and selecting vendor partners for two major technology and systems development projects. They have also provided sound project management and coordination support to our efforts."

Dean Peloso, Vice President, e-Regulation, CDS INC.

"Sierra Systems is an essential part of Citibank's program to migrate a number of its internal applications to a Web-based n-tier model. Their people are professional and their work product is excellent."

Jack Hoffman, Vice President  
Head of Bank Operations and Technology  
Citibank Canada

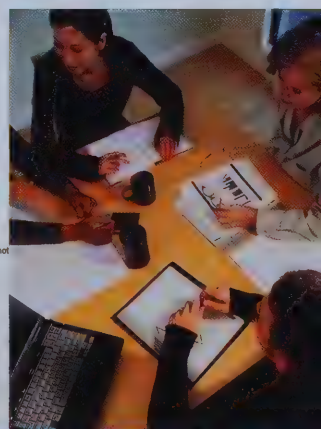
Canadian Direct Insurance



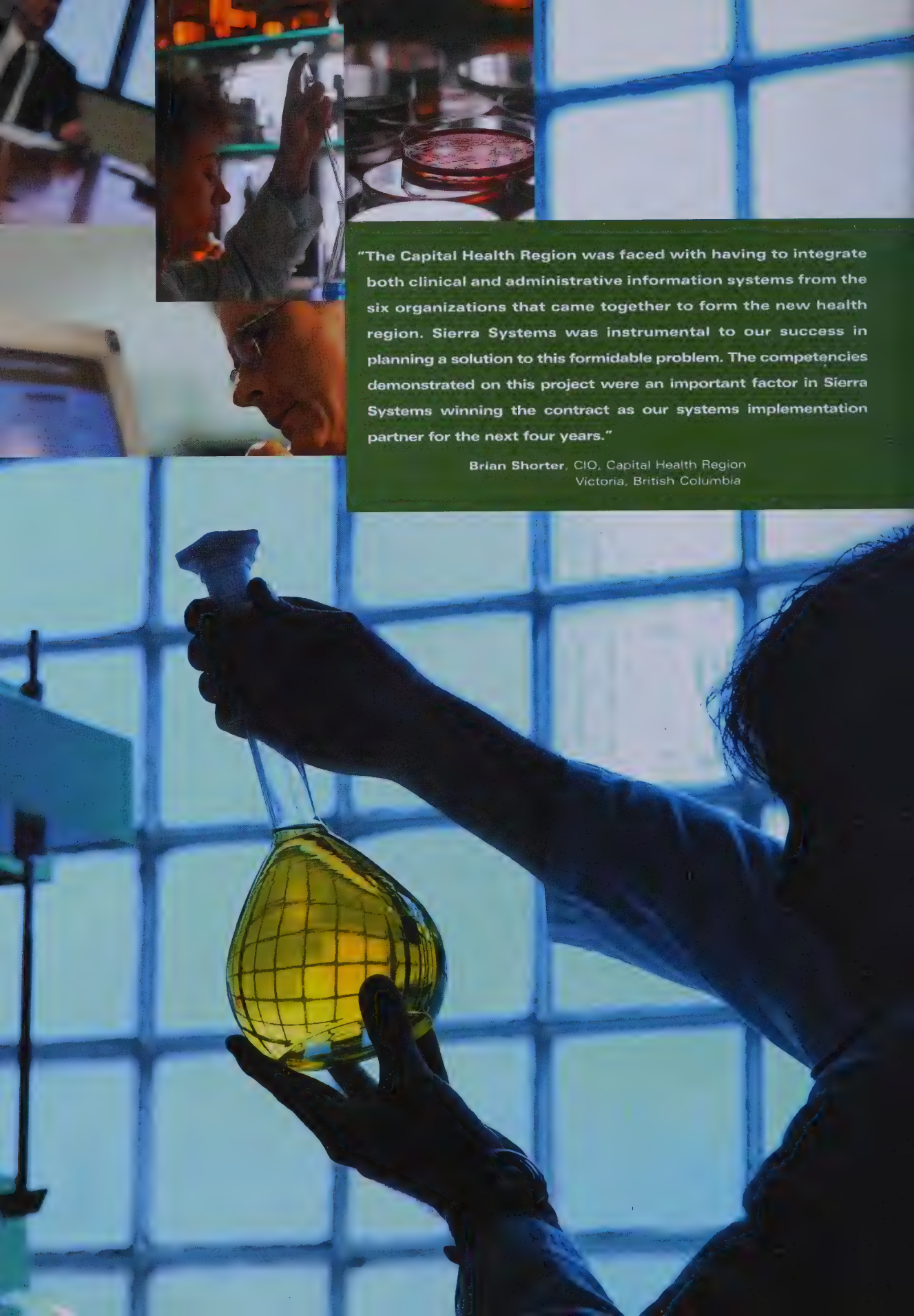
Check Our Prices  
Renewals  
Who We're  
Your Benefits  
Consumer Centre  
Ross & Company  
Media Centre  
Contact Us  
Home

### Location Selection

Please choose the Province you are currently residing in. For Provinces not listed, please click on the globe.







"The Capital Health Region was faced with having to integrate both clinical and administrative information systems from the six organizations that came together to form the new health region. Sierra Systems was instrumental to our success in planning a solution to this formidable problem. The competencies demonstrated on this project were an important factor in Sierra Systems winning the contract as our systems implementation partner for the next four years."

Brian Shorter, CIO, Capital Health Region  
Victoria, British Columbia



**What is the future of health care? Sierra Systems' Health Practice is working on it.**

**Both the United States and Canada are investing substantial funds on improving health information and communication technologies at national, regional and local levels to create and shape the systems needed by health professionals and patients alike.**

**Sierra Systems is at the forefront of this change.**

**We work extensively with governments and health care organizations, continuing to build on our twenty years of health experience and long-term relationships in the industry — and the outlook is healthy.**

#### U.S. STATE AGENCY HEALTH HIPAA ASSESSMENT

By now every health care organization in the United States has heard of the Health Insurance Portability and Accountability Act (HIPAA), the industry shorthand for privacy, security and electronic data standardization. Sierra Systems has recently been awarded a major contract with a state agency responsible for Medicaid to assess the impact of HIPAA and develop their implementation plan.

For maximum efficiency and effectiveness in the health care industry, the use of electronic transactions must be increased and common Electronic Data Interchange (EDI) transaction standards must be nationally adopted. The first rule encompassing transaction standards and code sets has received Final Rule approval. Privacy and Security Rules are expected to receive final approval early in the coming year.

Many health plans, clearing houses and trading partner organizations are assuming the impact of HIPAA will be greater than or as great as Y2K, because they will need to comply with the standards within two years of Final Rule approval.

#### CONFERENCE OF DEPUTY MINISTERS OF HEALTH: ADVISORY COMMITTEE ON HEALTH INFOSTRUCTURE

In response to the Canada Health Infoway report, the Canadian federal, provincial and territorial governments as a group engaged Sierra Systems to complete the National Health Infostructure Blueprint and Tactical Plan.

Sierra Systems provided the thought leadership, tactical planning and facilitation services that supported the agreement of all the governments to a future direction focused on electronic health records, integrated provider

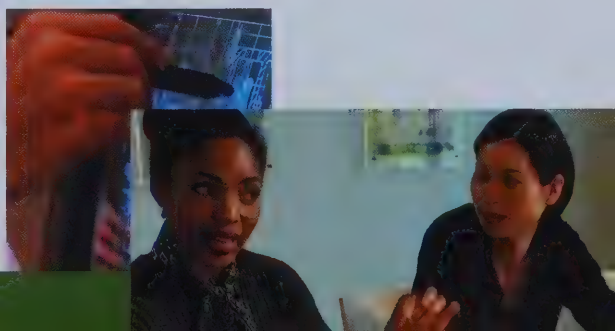
solutions and the provision of health information to the public. In September 2000, Health Canada announced the allocation of \$500 million toward the implementation of the Blueprint and Tactical Plan.

In association with this project, Sierra Systems has also been retained by both the four Western provinces and the Atlantic provinces to provide strategic support to the newly formed Western Health Information Collaborative (WHIC) and Health Infostructure Atlantic (HIA) — a good indication of Sierra Systems' value to these national health organizations.

#### alberta wellnet

alberta wellnet, a consortium of government, health regions, professional, academic and research organizations from within Alberta, is improving access to health information and delivery of health services for Albertans by building an integrated health information network. Sierra Systems, in partnership with another well established IT firm, has been involved in alberta wellnet since 1997.

Recent projects with alberta wellnet include a personal health record, breast cancer screening, newborn metabolic screening, RHA (Regional Health Authority) common opportunities, SPHINX (Spatial Public Health Information Exchange), senior's drug profile and lab results projects. Sierra Systems' participation in these projects is a clear demonstration of alberta wellnet's confidence in the Company's ability and reliability.





**What is the future of government services delivery for federal, state or provincial and local government?**

**Sierra Systems believes it's in the "e" — that is, electronic, efficient and easy-to-use — eGovernment.**

**Governments at all levels are opening their electronic doors to their citizens, and Sierra Systems understands their unique requirements. Our government clients are deploying Internet-related technologies for unprecedented electronic service delivery opportunities. Improving communication, increasing productivity, lowering overall cost, and promoting better internal and external client service is just the start.**

**With Sierra Systems, the Internet becomes a valuable tool for our government clients to deliver services more efficiently to the citizens they serve.**

**"Throughout the life of this initiative, Sierra Systems has focused on ensuring that the best business and technical solution was implemented, and we are extremely pleased with Sierra Systems' total commitment to the success of this strategic initiative."**

**Greg Reimer, Executive Director  
Consumer Taxation Branch  
Ministry of Attorney General  
Government of British Columbia**

HOUSE OF COMMONS – GOVERNMENT OF CANADA  
Sierra Systems is working with the Canadian House of Commons to create PRISM, a program developing customer-focused, eBusiness capable systems for 24-hour online access to documents and publications. PRISM will serve Members of Parliament, the public and the media year-round.

PRISM replaces and integrates nine major environments currently supporting the work of the Table, Journals Branch, Committees and Associations Directorate, Parliamentary Publications Directorate, Legislative Services, Parliamentary Exchanges Branch and Table Research Branch.

The modern, integrated information management environment will provide a suite of integrated applications to support workflow automation, Web submission of legislation, and the electronic recording and publication of events and proceedings related to the House of Commons Chamber and its Committees. Based on current standards such as

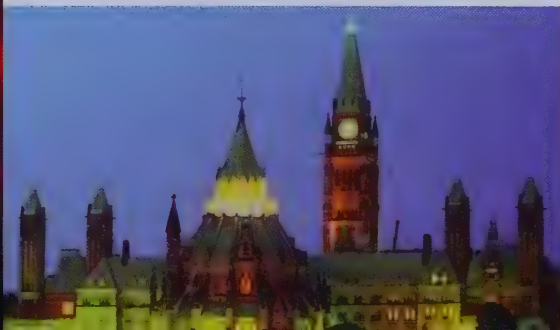
XML (Extensible Markup Language), PRISM will be sustainable well into the future.

#### CONSUMER TAXATION BRANCH

Consumer Taxation Branch (CTB) is part of the Revenue Division for British Columbia's Ministry of Finance and Corporate Relations. Sierra Systems won contracts totaling \$12 million with CTB as systems integrator for its new business-to-business eCommerce system.

CTB's Taxpayer Administration, Compliance and Services (TACS) system is aimed at transactions with the business community and supports evolving consumer demands, including Web filing, remote users and customer access to information. It is designed for five tax acts, including social services (provincial sales tax), fuel, tobacco, hotel and horse racing, which generate in excess of \$4 billion in tax revenues each year.

Based on Microsoft n-tier architecture, TACS is the first configurable integrated tax processing system available to the Tax Revenue market. Microsoft's MSDE database is used in the stand-alone component deployed on laptop computers to over 150 audit staff. With the growing need for similar tax administration systems in jurisdictions throughout North America, TACS positions Sierra Systems to offer targeted solutions to this market.





Law enforcement agencies across the United States and Canada are using technology in ways they never before envisioned with Sierra Systems' Justice Practice.

Courts, corrections, defense and prosecution are simultaneously accessing data and images previously buried in a mountain of paper. They are reaping the benefits of quick access to an accurate history account.

From electronic court case filing and status tracking to electronic payment of traffic citations, Sierra Systems' justice clients are leveraging technology to build new and better services to efficiently, effectively and securely deliver on their mandate to the public.

#### KING COUNTY SUPERIOR COURT

King County Superior Court in Washington State serves the twelfth largest county in the United States and has a national reputation as a leader in the application of technology.

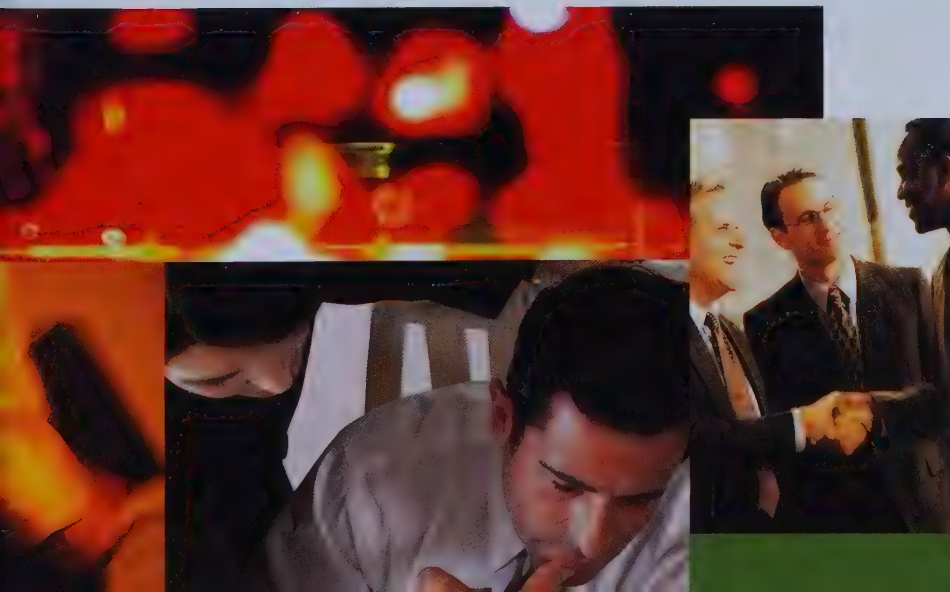
With the successful completion of Phase I of King County's Electronic Court Records (ECR) system, Sierra Systems was awarded Phase II — ECR Connectivity. This phase will bring images into courtrooms, judges' chambers, public reading areas

and desktops within the County's law, safety and justice departments. Sierra Systems has developed a user-friendly Web-based image viewer based on Java. The viewer supports all popular browsers and personal computers commonly in use today.

Current plans include delivering secure and private Web access to imaged court records from outside the County's network within the year, to provide even greater functionality and efficiency.

**"The Ministry has been well served by Sierra Systems for more than five years. They continue to deliver quality services and systems on time and on budget."**

**Scott Andison**, Executive Director, Information Technology Services Division  
Ministry of Attorney General, Government of British Columbia





What information tools do today's employees need in the workplace to be effective and efficient? Are they analyzing financial results? Or setting up new HR programs? Or interacting with customers? Or improving the productivity of a supply chain?

Business intelligence, customer relationship management, employee self-service, manager self-service, supply chain management, and analytic applications are all providing Sierra Systems' clients with new opportunities for greater efficiency and effectiveness. Sierra Systems combines the business thought leadership of our industry practices and our long-standing strength in administrative systems to make the public sector more efficient, and the private sector more competitive.

Sierra Systems' eWorkplace Practice focuses on bringing solutions to the desktop of each and every employee in our clients' organizations. Building on a solid base of an Enterprise Resource Planning (ERP) implementation, and using new business processes and new technologies to extend the reach of their employees, our clients are becoming more efficient and effective. Sierra Systems' eWorkplace Practice is making it happen.

#### BRITISH COLUMBIA MINISTRY OF FINANCE AND CORPORATE RELATIONS

A Sierra Systems-led consortium has been working with British Columbia's Ministry of Finance and Corporate Relations to implement Oracle Financials, establishing a common system throughout the provincial government.

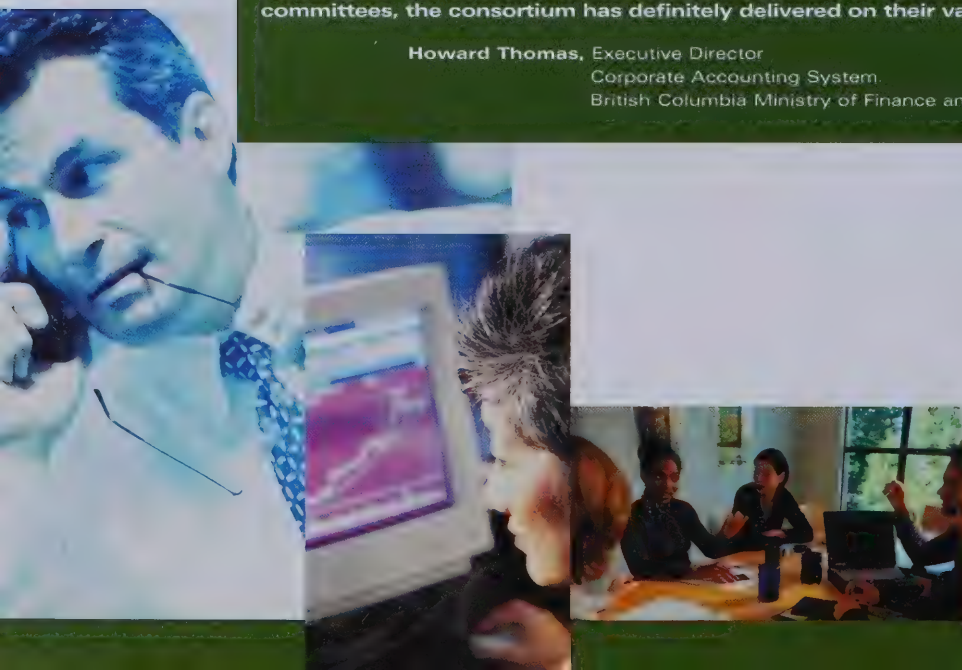
The project encompasses technology and application conversion, with aggressive changes to the government's workflows and processes for over

3,000 users in 30 organizations in the province. The new functionality includes General Ledger, Accounts Payable, Accounts Receivable, Purchasing, Project Accounting and Fixed Assets.

The success achieved in the initial phases of the project resulted in unprecedented demand from other ministries to be included in the conversion to this common system. Sierra Systems continues to work with the province to help them realize the full benefits of their new technology.

**"The consortium has played a major part in attainment of these successes by delivering on their commitments and proving to be an open, constructive and responsive group in integrating their skills and energies with those of government's internal resources. With involvement in all aspects of the initiative, extending to setting of our strategic goals, incorporating best practices, and the full and active participation in our management committees, the consortium has definitely delivered on their value-added services."**

**Howard Thomas**, Executive Director  
Corporate Accounting System  
British Columbia Ministry of Finance and Corporate Relations





## Partnerships

**Sierra Systems' long-term partnerships with leading North American vendors are recognition of their level of confidence in our ability to deliver their products — and achieve the results our clients demand.**

### MICROSOFT

As a Microsoft Solution Provider Partner, Sierra Systems leverages Microsoft's advanced technologies. We create innovative solutions for each client's situation, from large-scale government taxation systems to Internet-based insurance claims processing. Our value as a leading Microsoft solution provider is apparent through the recognition awards and certification of several of Sierra Systems' branches. Sierra Systems further benefits from access to Microsoft education and software and cooperative marketing events.

### ORACLE

Sierra Systems is an Oracle Certified Solution Partner. This designation is a testament to our knowledge and skill in the effective use of the Oracle database and toolsets. With so many of our largest client engagements implementing the Oracle database, Sierra Systems anticipates ongoing opportunities to continue strengthening the partnership.

### PEOPLESOFT

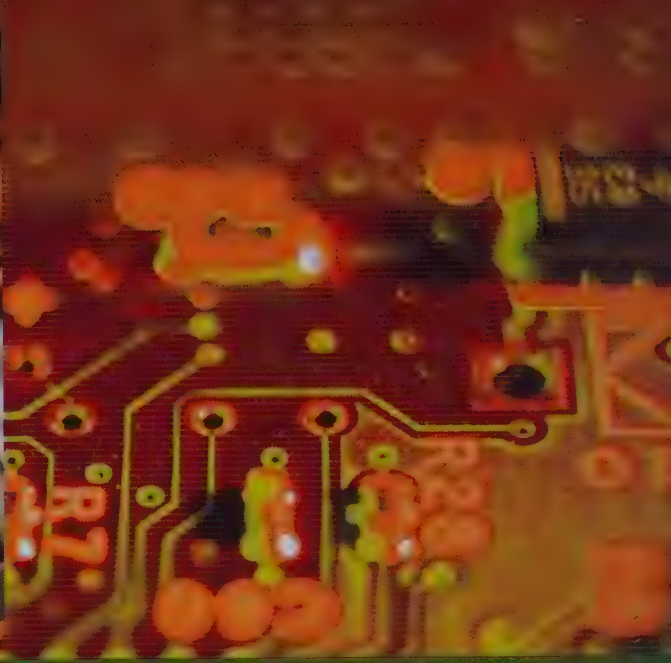
Sierra Systems has a long and successful history with PeopleSoft. As a PeopleSoft Alliance Partner since the program's inception in 1993, our relationship has ranged from contributing to the development of new versions of PeopleSoft through testing and quality assurance, to currently providing a consultant to act as part of their quality assurance team for Version 8. Version 8 moves to a Web-based technology that is new to most companies, so we have developed a methodology to deal with the technical infrastructure, new business practice opportunities and previous modifications to applications. Sierra Systems is working with several clients to prepare for PeopleSoft's Version 8 upgrades in 2001.

### SUN MICROSYSTEMS

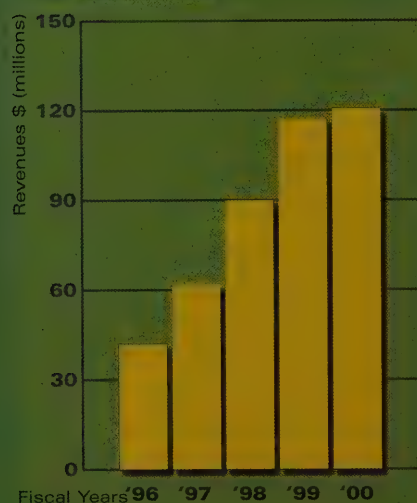
Sun Microsystems hardware and software powers much of the Internet. Sierra Systems — through projects like the Electronic Service Delivery for a major Canadian city and the document portal for a Los Angeles-based Internet publisher — knows how to deploy Sun's products. Participating in Sun's eIntegrator program gives Sierra Systems access to the latest knowledge and training resources at Sun. Sierra Systems is also proud to host, in our Toronto office, a Sun iForce Ready Center, a facility that demonstrates and develops innovative solutions using the latest technologies to solve our clients' business problems.



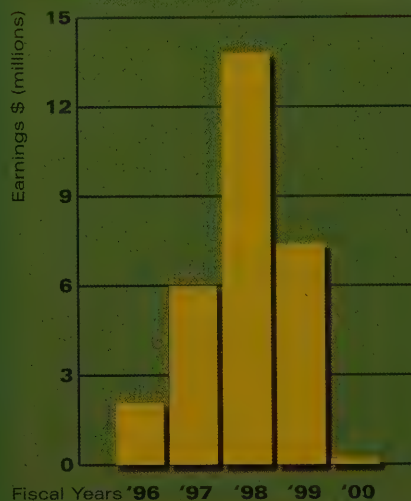




**Growth  
in Revenue**



**Earnings Before  
Taxes & Goodwill**



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## Management's Discussion and Analysis

### Overview

Revenue for the year increased 7% compared to last year. The growth of average headcount year-on-year of 15% outpaced revenue growth leading to the under-utilization of staff and reduced gross margins. Committed infrastructure costs as part of the growth strategy further depressed profitability. The decline in market demand around the beginning of the calendar year due to the millennium bug issue, continued to cause a lag in sales activity through the first three months of calendar 2000 and a slowing of project initiation thereafter. A charge of \$1.6 million for bad debts associated with the questionable financial viability of some startup companies was made in the fourth quarter.

During the year, the Company acquired the electronic commerce strategic planning business of TWA Consulting Services Inc. (TWA) in Toronto. The addition of TWA personnel and business relationships is a strategic step in building a new Sierra Systems vertical specialty in the financial services industry.

### Review of Operations

Services revenue for the year increased 9% to \$119.8 million. The average headcount in fiscal 2000 was 873 compared to 761 in fiscal 1999, an increase of 15%. Reduced demand for services and market upheaval around the beginning of the calendar year led to under-utilized resources throughout the year. The utilization rate for billable employees was 10% lower in fiscal 2000 than 1999 and correspondingly the average revenue per employee declined 9%.

Product sales declined 75% to nominal levels (\$0.9 million). Sierra Systems does not build and sell its own licensed product, therefore product sales are a result of the resale of product, usually as part of relationships with our partners and as part of our systems integration activity. These sales are therefore highly variable.

Compensation costs are the costs of billable consultants and operational management. These costs increased by 14% due to increased salaries, increased headcount and the implementation of an enhanced benefit plan in the U.S. Expressed as a percentage of services revenue, compensation costs in 2000 were 75% compared to 72% last year.

Other costs include education, recruitment and non-recoverable costs such as travel and entertainment. These costs decreased by 2% from 1999. Expressed as a percentage of services, other costs dropped to 9% from 10% in fiscal 1999.

Gross margin from services revenue declined to 16% from 18% last year, a result of the lower utilization rate. Gross profit therefore declined 7%.

### Specialty Practices

Sierra Systems derives competitive advantage from its in-depth, functional knowledge of the client's area of business in certain specialty practices. The geographic dispersion of the Company's offices results in local knowledge that supports its local client base. When this knowledge applies broadly across its diverse operations, a specialty practice may be created.

The following table summarizes specialty practice revenue.

Millions of Canadian dollars		
	2000	1999
Enterprise Solutions	34.4	44.6
Utilities/CIS	8.1	2.5
Health	10.4	10.8
Justice	8.4	14.1
Total Specialty Practices	61.3	72.0

The Enterprise Solutions Practice (ESP) has focused on the implementation of enterprise-wide applications in the human resources and financial management areas. A significant portion of this specialty practice has been the implementation of PeopleSoft applications, but has also included Oracle applications and others. Revenue attributable to this practice declined in fiscal 2000 by 23%. Moving forward, this practice will focus on electronic Workplace initiatives bringing ESP and Customer Relationship Management (CRM) technologies together.

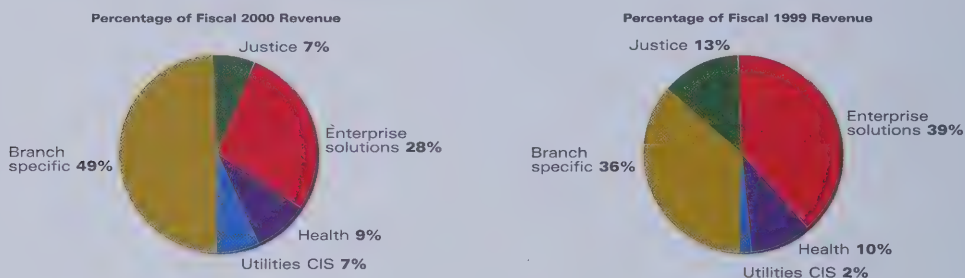


Beginning this fiscal year, Sierra Systems combined branch specific activity in the utilities sector with its CIS Practice to form a corporate Utilities Practice. Reporting these combined activities better reflects Sierra Systems' full participation in this vital segment of the North American economy. Revenue generated in this new practice was 7% of total revenue in the year.

Sierra Systems' Health Practice is largely focused at the provincial/county/state level. Revenue in this practice remained stable with a slight decline of 3% in fiscal 2000. Sierra Systems' strategy is to broaden the reach of this practice from a strong base in western Canada into eastern Canada and the United States.

The justice field can be divided into police, courts and correctional facilities. Revenue from the Justice Practice declined 41% from last year. Many justice initiatives are interlaced with electronic government initiatives and, in fiscal 2001, the Company will amalgamate these areas.

#### Specialty Practices Revenue



#### Geographic Distribution

Sierra Systems will continue to diversify from what has been its traditional geographic base of western Canada and western United States.

#### Geographic Distribution



#### Corporate and Overhead Items

General and administrative costs consist of branch indirect overhead and administrative costs such as rent, office salaries, telephone and stationery. Branch costs account for 70% of the total general and administrative costs. Corporate general and administrative costs, which mainly comprise centralized support staff, public company costs, and audit and legal fees, account for the remainder. General and administrative costs increased 51% from \$11.0 million to \$16.5 million. This included an unusual charge of \$1.6 million for bad debts associated with the questionable financial viability of some startup companies. The charge was unusual because Sierra Systems historically has had nominal bad debt experience. This provision for doubtful accounts was made in the fourth quarter and related largely to June and quarter four revenues. Without this unusual charge, the increase in general and administrative expenses would have been 36% and, as a percentage of revenue, these expenses would have been 12% in 2000 compared to 10% in 1999. Of the increase, 70% arose from rent and administrative support. Certain costs, particularly space and people, were committed to as part of the growth strategy.

Amortization of capital assets increased 23% to \$3.1 million as a result of increased capital expenditures during the year on furniture, equipment and hardware. Amortization of goodwill increased 88% to \$0.8 million. A full year of amortization for the acquisition of Systems Interface Inc., acquired part way through 1999, accounted for \$0.2 million of the increase and the balance arose from the acquisition of TWA part way through 2000.



Funds not anticipated to be required for funding operations and therefore available for acquisitions are segregated in the balance sheet as Temporary investments. Such funds are invested in short-term bonds and generated interest income in 2000 of \$0.6 million. In 2000 the Company recorded a gain on the translation of its investment in its U.S. subsidiaries. The Company's U.S. dollar costs substantially offset sales in U.S. dollars in the normal course of business and, consequently, reduce the Company's exposure to currency risk.

The effective tax rate on earnings before goodwill amortization is distorted by a foreign tax differential of \$0.5 million arising from losses in the United States. As described in note 10 of the Consolidated Financial Statements, the Company has recorded a benefit of \$0.9 million (U.S. \$0.6 million) for future tax losses carried forward.

### **Liquidity and Capital Resources**

The Company's primary needs are for working capital and capital expenditures to support the growth of its existing operations and to fund acquisitions. Generally, funding for operating and capital requirements is from cash flow from operations. As described above, funds not so required are disclosed as temporary investments. Cash (net of current bank indebtedness) at September 30, 2000 was \$1.5 million compared to net current bank indebtedness at September 30, 1999 of \$0.8 million. Temporary investments at the balance sheet date were \$13.4 million in 2000 compared to \$15.2 million in 1999. The reduction of \$1.8 million was used to finance the cash component of the acquisition of TWA. In 1999, the reduction in temporary investments was used to finance business acquisitions as well as capital expenditures.

The Company generated \$1.0 million of cash from operating activities before net changes in non-cash working capital items in fiscal 2000 compared to \$5.8 million in 1999. The components of, and the year-over-year changes in, cash flow from operating activities have been discussed earlier in the review of operations. The Company generated \$4.2 million in cash flow from changes in non-cash working capital items compared to a use of cash in 1999 of \$5.6 million. Accounts receivable and unbilled work in progress at September 30, 2000 was \$28.2 million, a decrease from the prior year-end of 10%. Unbilled work in progress decreased to \$0.5 million at September 30, 2000 from \$1.4 million at September 30, 1999, the decrease arising primarily from the timing of deliverables on fixed price contracts. Average days sales in trade accounts receivable at September 30, 2000 calculated on quarterly trailing revenue declined by 9% to 88 days compared to September 30, 1999.

Excluding project financing (discussed below), financing activities provided \$0.9 million in 2000 with \$0.8 million from the issuance of shares pursuant to the Employee Share Ownership Plan and the remainder from the exercise of options. A further 94,000 shares with a fair market value of \$1.3 million were issued as part of the purchase price of TWA. The weighted average number of shares outstanding for 2000 increased to 9.1 million shares, an increase of 3% from 1999.

Sierra Systems' investing activities, excluding the financing of business acquisitions described above, are restricted to the purchase of capital assets, which increased nominally this year by 6%.

The Company's long-term debt is related to project financing and is offset by long-term receivables. Any differences are due to the timing of repayments. The sole client at this time with project debt is a major university.

As at September 30, 2000, Sierra Systems' principal sources of liquidity were cash (net of bank indebtedness) and temporary investments, totaling \$14.9 million compared to \$14.4 million at the same date in 1999. The Company believes that these resources, together with the cash provided by future operations and available borrowings under its line of credit, will be sufficient to meet its working capital needs and capital expenditures for the foreseeable future and for acquisitions.

Sierra Systems did not pay dividends in the year and does not intend to pay dividends in the foreseeable future. The dividend policy will be reviewed from time to time.

### **Risks and Risk Management**

Sierra Systems is subject to various risks and uncertainties that can cause volatility in its earnings. The Company has put into place risk mitigation strategies to manage the risks that are industry specific such as the hiring and retention of staff and, to a lesser extent, general business risks such as an economic downturn.



Fixed price contracts are an important element of Sierra Systems' business. In entering into such contracts, the Company assumes certain risks in relation to its ability to deliver projects profitably. To reduce risk, the Company has in place a Corporate Risk Management team to review project bids, contract negotiations, ongoing project performance and to initiate and complete project audits as required.

Sierra Systems' growth and continued success depends on its ability to attract, retain, train and motivate highly skilled personnel. There is significant competition for such employees and Sierra Systems has developed comprehensive "People Programs" designed to ensure its continued competitiveness. The IT services industry is highly competitive and is characterized by rapid technological change, shifting client preferences and new product developments. The Company's strategy is to place constant emphasis on technology expertise in its career planning and to maintain a rigorous education program. Given the strong competition for resources, Sierra Systems' philosophy is to train employees on an ongoing basis.

The Company contracts with its clients on an engagement-by-engagement basis, which can lead to short-term fluctuations in revenue. Given that resources and related costs are generally established in anticipation of demand, fluctuation in revenue projections can lead to the under-utilization of professional staff which may cause significant reductions in operating results for a particular quarter and could result in losses for such quarter. The Company's strategy is to focus on building and maintaining long-term client relationships.

Sierra Systems' growth strategy is based in part on the ability to find sound acquisition opportunities. The Company's ability to grow through acquisition, particularly in the United States, may be restrained by its ability to find such opportunities.

A severe economic downturn could reduce capital spending by governments and corporations. Although capital spending is generally discretionary, the implementation of technological solutions to enhance business competitiveness has become such a priority that it is likely that spending on such initiatives would continue despite other spending reductions. Sierra Systems' geographic dispersion helps to mitigate this business risk.

#### **Outlook**

The outlook for fiscal 2001 is much improved. There has been a recovery in momentum and the Company anticipates improved profitability in fiscal 2001. The Company is in a position to deliver additional services revenue with the under-utilized resources available, with a beneficial effect on gross margin and profitability.

The Company continues to profitably expand its traditional marketplace within the Pacific Northwest. Newer market regions in the East are in transition to a broader base of services from an area largely dominated by the Enterprise Solutions Practice. During the year, Sierra Systems strengthened its focus on financial services and insurance with the integration of personnel from TWA. The integration of Systems Interface (acquired in September 1999) in Ottawa, positions the Company for expansion in electronic government initiatives.

Sierra Systems expects to use available funds for strategic acquisitions primarily in the U.S. Our acquisition targets will generally have 50 to 150 staff, be in the systems integration and consulting industry, and have good continuing management. A mixture of cash and shares, the latter to provide incentive to the management team, will finance acquisitions. Although still part of Sierra Systems' longer-term planning, the search for potential targets has been reduced until the operational results of the Company are returned to profitability.



## Management's Report

November 22, 2000

The consolidated financial statements of Sierra Systems Group Inc. have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of the information contained in the consolidated financial statements and other sections of the annual report. The Company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for the preparation of financial statements.

The Company's independent auditors, PricewaterhouseCoopers LLP, have been appointed by the shareholders to express their professional opinion on the fairness of the consolidated financial statements. Their report is included on the following pages.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Board of Directors. The auditors have full and direct access to the Audit Committee.



**Grant R. Gisell**

Chairman, President and Chief Executive Officer



**Caroline J. Dunn**

Vice President and Chief Financial Officer



## Auditors' Report

November 22, 2000

### To the Shareholders of Sierra Systems Group Inc.

We have audited the consolidated balance sheets of Sierra Systems Group Inc. as at September 30, 2000 and 1999 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

*PricewaterhouseCoopers LLP*

Chartered Accountants

## Consolidated Balance Sheets

As at September 30, 2000 and 1999  
(in thousands of Canadian dollars)

2000

1999

**Assets****Current assets**

Cash (note 4)	\$ 4 944	\$ 1 190
Temporary investments (note 4)	13 441	15 206
Accounts receivable, including work-in-progress	28 166	31 266
Current portion of long-term accounts receivable (note 5)	2 920	3 248
Income taxes recoverable	2 003	666
Deferred income taxes	676	—
Prepaid expenses	848	887
	52 998	52 463

**Long-term accounts receivable (note 5)**

	2 651	4 449
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**Capital assets (note 6)**

	8 908	7 340
--	-------	-------

**Deferred income taxes**

	1 741	950
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**Goodwill (note 7)**

	12 668	10 611
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	\$ 78 966	\$ 75 813
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**Liabilities****Current liabilities**

Bank indebtedness (note 8)	\$ 3 490	\$ 1 971
Accounts payable and accrued liabilities	11 714	8 951
Deferred revenue	936	1 187
Deferred income taxes	—	67
Current portion of project financing (note 9)	2 920	2 920
	19 060	15 096
<b>Project financing (note 9)</b>	2 651	4 449
	21 711	19 545

**Shareholders' Equity**

<b>Capital stock (note 11)</b>	40 236	38 048
<b>Retained earnings</b>	17 019	18 220
	57 255	56 268
	\$ 78 966	\$ 75 813

Approved by the Board of Directors



Grant R. Gisell  
Director



George A. Fierheller  
Director



## Consolidated Statements of Retained Earnings

For the years ended September 30, 2000 and 1999  
(in thousands of Canadian dollars)

	2000	1999
Retained earnings — beginning of year	\$ 18 220	\$ 14 713
Net (loss) earnings for the year	(1 201)	3 507
Retained earnings — end of year	\$ 17 019	\$ 18 220

Sierra Systems Group Inc.

## Consolidated Statements of Operations

For the years ended September 30, 2000 and 1999  
(in thousands of Canadian dollars except per share and share figures)

	2000	1999
<b>Revenue</b>		
Services	\$ 119 807	\$ 109 537
Product sales	876	3 552
	120 683	113 089
<b>Cost of sales</b>		
Compensation	90 018	78 669
Other costs	11 108	11 296
Product costs	559	2 749
	101 685	92 714
<b>Gross profit</b>	18 998	20 375
<b>General and administration</b>	16 527	10 971
<b>Amortization of capital assets</b>	3 142	2 554
<b>(Loss) earnings from operations</b>	(671)	6 850
<b>Other income (expenses)</b>		
Foreign exchange gain (loss)	312	(126)
Interest	565	633
	877	507
<b>Earnings before income taxes and goodwill amortization</b>	206	7 357
<b>Provision for (recovery of) income taxes</b> (note 10)		
Current	2 359	4 126
Deferred	(1 782)	(717)
	577	3 409
<b>(Loss) earnings before goodwill amortization</b>	(371)	3 948
<b>Goodwill amortization</b>	830	441
<b>Net (loss) earnings for the year</b>	\$ (1 201)	\$ 3 507
<b>(Loss) earnings per share before goodwill amortization</b>	\$ (0.04)	\$ 0.45
<b>(Loss) earnings per share after goodwill amortization</b>	\$ (0.13)	\$ 0.40
<b>Fully diluted earnings per share is anti-dilutive</b>	\$ —	\$ —
<b>Weighted average number of common shares</b> (note 1)	9 100 992	8 832 636

# Consolidated Statements of Cash Flows

For the years ended September 30, 2000 and 1999  
(in thousands of Canadian dollars)

2000

1999

## Cash provided from (used for)

### Operating activities

Net (loss) earnings for the year	\$ (1 201)	\$ 3 507
Items not affecting cash		
Amortization of capital assets	3 142	2 554
Amortization of goodwill	830	441
Deferred income taxes	(1 782)	(717)
	989	5 785
Net change in non-cash working capital items relating to operations	4 183	(5 605)
Net change in long-term accounts receivable	2 126	2 344
	7 298	2 524

### Financing activities

Project financing — net	(1 798)	(3 274)
Shares issued	934	498
	(864)	(2 776)

### Investing activities

Temporary investments	1 765	7 172
Purchase of capital assets	(4 331)	(4 083)
Business acquisitions (note 2)	(1 633)	(4 686)
	(4 199)	(1 597)
Increase (decrease) in cash	2 235	(1 849)
(Bank indebtedness) cash — beginning of year	(781)	1 068
Cash (bank indebtedness) — end of year	\$ 1 454	\$ (781)

### Represented by

Cash	\$ 4 944	\$ 1 190
Bank indebtedness	(3 490)	(1 971)
	\$ 1 454	\$ (781)

Interest and income taxes (note 3)



## Notes to Consolidated Financial Statements

For the years ended September 30, 2000 and 1999

(amounts in tables are in thousands of Canadian dollars except share figures)

### 1 Summary of significant accounting policies

#### Generally accepted accounting principles

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

#### Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Principal operating subsidiaries are Sierra Systems Consultants Inc., Sierra/Compu-tec Consulting Inc., Pacific International Mapping Corp. (PIM), and Systems Interface Inc. (SI). The Company's 49% interest in Donna Cona Inc. is recorded on a proportionate consolidation basis.

#### Revenue recognition

The Company recognizes its revenue as services are performed. Revenue is recognized on fixed price contracts using the percentage-of-completion method of accounting. Adjustments to fixed price contracts and estimated losses, if any, are recorded in the period when such adjustments or losses are known. On risk-sharing contracts, billings from subcontractors on which the Company takes no mark-up are recorded directly in accounts receivable and do not flow through the statement of operations.

#### Translation of accounts of foreign subsidiaries

Accounts of foreign subsidiaries are translated into Canadian dollars using the temporal method as follows:

- monetary assets and liabilities at the year-end rate of exchange
- non-monetary assets, liabilities and capital stock at historical rates of exchange
- revenue and expenses at average rates for the year, except for amortization, which is translated at exchange rates used in the translation of the relevant asset accounts.

All gains and losses arising from the translation of foreign currencies are included in net earnings for the year.

#### Temporary investments

Temporary investments are normally held to maturity and comprise short-term money-market securities valued at cost.

#### Work-in-progress

Work-in-progress represents services provided which have not yet been billed and is valued at estimated realizable value.

#### Capital assets

Capital assets are carried at cost. Amortization is calculated over their estimated useful lives using the declining balance method at the following annual rates:

Furniture and equipment	20 - 30%
Computer hardware	30%
Computer software	100%
Leasehold improvements	over the remaining life of the lease

One-half of the year's amortization is recognized in the year of acquisition.

#### Goodwill

Goodwill arising on acquisitions is amortized over 7 to 20 years using the straight-line method. Goodwill is written down when declines in value are considered to be permanent, based on estimated future cash flows.

#### Deferred revenue

Client fees received in advance are deferred and matched against billings as services are performed.

#### Income taxes

The Company follows the deferral method of income tax allocation. Deferred income taxes result from timing differences between financial statement and income tax reporting principally relating to the recognition of revenue and accumulated amortization. The current portion of deferred income taxes relates to amounts included in current assets and current liabilities.

## Earnings (loss) per share

Basic earnings (loss) per share are calculated based upon the weighted average number of common shares outstanding during the period.

Fully diluted earnings calculations, if dilutive, assume that options under the Stock Option Plan have been exercised at the earlier of the beginning of the period or date of issuance and that funds derived therefrom would be invested at current market rates.

## Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates; however, management does not believe these differences would have a material effect on operating results.

## Stock-based compensation plans

The Company has two stock-based compensation plans, which are described in note 11. Under the Employee Share Ownership Plan (ESOP), a 15% subsidy provided by the Company is recognized as compensation expense when the shares are purchased. Under the Stock Option Plan, no compensation expense is recognized when stock and stock options are issued to employees and directors. Any consideration paid by employees and directors on exercise of options or purchase of stock is credited to capital stock.

## 2 Business acquisitions

### 2000

#### TWA Consulting Services Inc. (TWA)

On May 15, 2000, the Company acquired the electronic commerce strategic planning business of TWA for a total consideration of \$2,887,000. The acquisition was accounted for using the purchase method. The net assets acquired comprised certain intellectual property and existing business relationships, which were allocated to goodwill and are being amortized over seven years.

The consideration given comprised:

Cash	\$	1 633
Common shares		1 254
	\$	2 887

### 1999

#### a) Pacific International Mapping Corp. (PIM)

Effective July 1, 1999, the Company acquired all of the outstanding shares of PIM, a company specializing in spatial mapping systems. The cost of the acquisition was \$964,000.

The acquisition was accounted for using the purchase method, and accordingly, the purchase price was allocated to the assets acquired and the liabilities assumed based on their fair values at July 1, 1999, as follows:

#### Net assets at fair values

Working capital	\$	285
Capital assets		381
Goodwill		298
Cost of acquisition	\$	964
Consideration given		
Cash	\$	964

The operating results of the acquired business have been included, on a consolidated basis, in the financial statements of the Company from July 1, 1999.

#### b) Systems Interface Inc. (SI) and Donna Cona Inc.

On September 1, 1999, the Company acquired all of the outstanding shares of SI, a company providing systems integration services. Through the acquisition of SI, the Company also acquired a 49% interest in Donna Cona Inc., an aboriginal information technology company. The cost of the acquisition was \$5,764,000.



## Notes to Consolidated Financial Statements

The acquisition was accounted for using the purchase method, and accordingly, the purchase price was allocated to the assets acquired and the liabilities assumed based on their fair values at September 1, 1999, as follows:

Net assets at fair values	
Working capital	\$ 1 033
Capital assets	205
Goodwill	4 526
<b>Cost of acquisition</b>	<b>\$ 5 764</b>
Consideration given	
Cash	\$ 3 722
Common shares	2 042
	<b>\$ 5 764</b>

The operating results of the acquired businesses have been included, on a consolidated basis, in the financial statements of the Company from September 1, 1999. The accounts of Donna Cona Inc. have been included on a proportionate consolidation basis.

### 3 Statements of cash flows

	2000	1999
Interest paid	\$ 711	\$ 695
Interest received	\$ 1 395	\$ 1 703
Income taxes paid	\$ 4 274	\$ 6 914
Income taxes refunded	\$ 915	\$ 65

### 4 Cash and temporary investments

At September 30, 1999, \$200,000 was held as a project performance deposit required by a customer. This restricted deposit was released to the Company in fiscal 2000.

The September 30, 1999 cash balance has been reduced by \$7,899,000 and reclassified to temporary investments in accordance with the presentation adopted in the current year.

### 5 Long-term accounts receivable

The long-term accounts receivable relate to certain long-term contracts for which the Company has arranged project financing (note 9). The long-term accounts receivable include interest at the same rates and in the same amounts as is applicable to the project financing. All client payments received on the contracts are applied to pay interest and reduce the project financing outstanding. The long-term accounts receivable have been pledged as security for the project financing. At September 30, 2000, the current portion of the long-term accounts receivable amounted to \$2,920,000 (1999 - \$3,248,000).

### 6 Capital assets

	2000		
	Cost	Accumulated amortization	Net
Furniture and equipment	\$ 6 360	\$ 3 284	\$ 3 076
Computer hardware	9 877	5 257	4 620
Computer software	2 953	2 671	282
Leasehold improvements	1 618	688	930
	<b>\$ 20 808</b>	<b>\$ 11 900</b>	<b>\$ 8 908</b>
	1999		
	Cost	Accumulated amortization	Net
Furniture and equipment	\$ 5 024	\$ 2 678	\$ 2 346
Computer hardware	7 830	3 707	4 123
Computer software	2 361	2 087	274
Leasehold improvements	881	284	597
	<b>\$ 16 096</b>	<b>\$ 8 756</b>	<b>\$ 7 340</b>

## 7 Goodwill

	2000	1999
Goodwill, net of accumulated amortization of \$1,305,000		
(1999 - \$475,000)	\$ 12 668	\$ 10 611

## 8 Bank indebtedness

The Company has operating bank lines of credit of \$5,000,000 and U.S. \$250,000. Accounts receivable have been pledged as security for the bank indebtedness.

## 9 Project financing

The Company has arranged a credit facility with a Canadian bank of approximately \$7,000,000 (1999 — \$9,550,000) for a long-term client contract. Repayment is by monthly instalments of \$243,333 until March 31, 2003. The related long-term accounts receivable (note 5) are pledged as security. The amount outstanding at September 30, 2000 under this credit facility is as follows:

	2000	1999
Bank loan with interest at bank prime rate plus 1/2%	\$ 271	\$ —
Banker's Acceptance at market rate		
capped at a maximum of 5.5%	5 300	7 369
	5 571	7 369
Less: Current portion	2 920	2 920
	\$ 2 651	\$ 4 449

## 10 Income taxes

	2000	1999
(Loss) earnings before income taxes,		
less goodwill amortization	\$ (624)	\$ 6 916
Expected provision	\$ (285)	\$ 3 112
Non-deductible goodwill amortization	379	201
Increase (decrease) resulting from		
Other non-deductible expenses	(51)	104
Foreign tax differential	457	157
Other	77	(165)
Reported income tax provision	\$ 577	\$ 3 409

As at September 30, 2000, Sierra/Computec Consulting Inc. had a net operating loss carryforward of U.S. \$1,834,000 which expires up to 2020. The benefit of these loss carryforwards of U.S. \$623,000 has been recognized in these financial statements.

## 11 Capital stock

### a) Capital stock

Authorized

100,000,000 common shares without par value

50,000,000 preferred shares without par value

Issued

	2000		1999	
	Common shares	Amount	Common shares	Amount
Balance - beginning of year	9 021 885	\$ 38 048	8 808 162	\$ 35 508
Issued pursuant to ESOP	54 482	781	28 988	498
Exercise of options	8 477	153	—	—
Issued for acquisition (note 2)	93 759	1 254	184 735	2 042
Balance - end of year	9 178 603	\$ 40 236	9 021 885	\$ 38 048

### b) Stock options

The Company has a Stock Option Plan which grants to directors and certain employees of the Company the option to purchase up to 1,356,750 common shares of the Company. The exercise price of each option is determined to be the market price of the Company's stock on the date the option is granted, and an option's maximum term is five years.



## Notes to Consolidated Financial Statements

The following table summarizes the status of options outstanding under the Plan:

	2000		1999	
	Share options outstanding	Weighted average price	Share options outstanding	Weighted average price
Balance - beginning of year	957 171	\$ 21.45	720 140	\$ 20.97
Options granted during the year	173 300	14.75	257 000	23.15
Options exercised during the year	(8 477)	18.00	—	—
Options cancelled during the year	(144 840)	21.21	(19 969)	24.97
Balance - end of year	977 154	\$ 20.33	957 171	\$ 21.45

The following table provides details of options outstanding at September 30, 2000:

Expiry date	Number of options	Exercise price	Number exercisable	Weighted average price
2002	52 000	\$18.00 – 27.75	29 000	\$ 25.28
2003	18 000	14.50 – 19.50	6 000	17.00
2004	607 254	13.45 – 34.00	332 322	19.27
2005	230 100	7.00 – 26.00	37 900	18.19
2006	69 800	8.20 – 24.00	—	—
	977 154		405 222	

### c) Shares held in escrow

	Balance – September 30, 1999	Released during the year	Balance – September 30, 2000
Initial Public Offering	2 224 041	1 112 013	1 112 028
Acquisition of			
EDM Management Systems Inc.	56 483	30 963	25 520
Acquisition of SI	184 735	61 577	123 158
Acquisition of TWA	—	—	93 759
	2 465 259	1 204 553	1 354 465

As at September 30, 2000, 1,354,465 common shares were held in escrow; 1,112,028 will be released by April 21, 2001. 25,520 common shares issued for the acquisition of EDM Management Systems Inc. will be released by September 1, 2001. 123,158 common shares issued for the acquisition of SI will be released in equal instalments by September 1, 2001 and 2002. 93,759 common shares issued for the acquisition of TWA (note 2) will be released in equal instalments by May 5, 2001, 2002 and 2003, respectively.

### d) Employee Share Ownership Plan (ESOP)

The ESOP permits all full-time employees of the Company to purchase common shares through payroll deductions. Shares are purchased quarterly at prevailing market prices with a 15% subsidy from the Company. At September 30, 2000, a further 20,000 common shares have been authorized and reserved for issuance under this plan.

During the year, the Company contributed \$102,000 (1999 — \$65,000) to the ESOP which has been included in compensation expense.

## 12 Commitments

The Company is committed to minimum annual lease payments on its premises, excluding operating costs, as follows:

2001	\$ 3 584
2002	3 700
2003	3 343
2004	2 968
2005	2 377
2006 and thereafter	9 937
	\$ 25 909

The Company has entered into sublease agreements on certain premises included above resulting in an anticipated reduction in general and administration expense of approximately \$160,000 per year to 2008.

### 13 Business segment information

The Company operates in one business segment — providing IT services. The Company operates primarily in Canada and the United States.

	Canada	U.S.	Total
<b>2000</b>			
Revenue	\$ 78 171	\$ 42 512	\$ 120 683
Capital assets and goodwill	18 305	3 271	21 576
<b>1999</b>			
Revenue	\$ 79 220	\$ 33 869	\$ 113 089
Capital assets and goodwill	15 642	2 309	17 951

### 14 Financial instruments

#### a) Financial risks

Financial risk to the Company's earnings arises from the fluctuations in foreign exchange rates and in interest rates and the degree of volatility of these rates. The Company has not used derivative instruments to reduce its exposure to interest or currency risk. Compensation and other costs in U.S. dollars significantly offset sales in U.S. dollars in the normal course of business and, consequently, reduce the Company's exposure to currency risk.

#### b) Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. With the exception of long-term accounts receivable (note 5) totalling \$5.6 million at September 30, 2000 (1999 - \$7.7 million), the Company's credit concentrations are limited due to the wide variety of customers and markets into which the Company's services are sold. During the year, a provincial government department provided service revenues amounting to \$13 million, which exceeded 10% of consolidated revenue.

#### c) Fair values

The fair values of the Company's cash, temporary investments, accounts receivable, and accounts payable and accrued liabilities are estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments. The fair values of the long-term accounts receivable and project financing are estimated to approximate their carrying values because they each include interest at floating rates.





**Board of Directors** (L to R): Robert H. Birch, Robert W. Murdoch, George A. Fierheller, Grant R. Gisel, Frederick R. Wright, Peter F. Webb, Leslie Ann Ingram.

#### **Board of Directors**

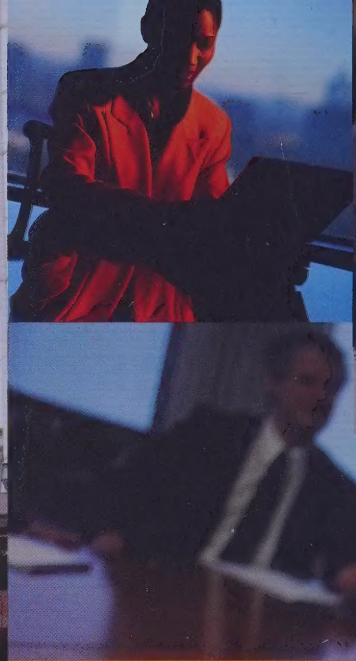
Grant R. Gisel, Chairman, President and Chief Executive Officer  
 Leslie Ann Ingram, Vice President, Chief Operating Officer and Director  
 Robert H. Birch, Vice President and Director  
 George A. Fierheller, Director  
 Robert W. Murdoch, Director  
 Peter F. Webb, Director  
 Frederick R. Wright, Director

#### **Officers**

Grant R. Gisel, President and Chief Executive Officer  
 Leslie Ann Ingram, Vice President and Chief Operating Officer  
 Robert H. Birch, Vice President  
 Caroline J. Dunn, Vice President and Chief Financial Officer  
 Susan L. Jeffery, Corporate Secretary

#### **Notice of Annual Meeting**

The Annual Meeting of Shareholders will be held in the Cheakamus Room at The Waterfront Centre Hotel, 900 Canada Place Way, Vancouver, BC, on Thursday, February 22, 2001 at 11:00 a.m. PST. All shareholders are cordially invited to attend.





**Sierra Systems Group Inc.**

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**Stock Exchange**

Toronto Stock Exchange  
Trading Symbol — SSG

**Transfer Agent**

CIBC Mellon Trust  
Vancouver, BC

**Banker**

Royal Bank of Canada  
Vancouver, BC

**Legal Counsel**

Lang Michener Lawrence & Shaw  
Barristers & Solicitors  
Vancouver, BC

**Auditors**

PricewaterhouseCoopers  
Chartered Accountants  
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